

Message Text

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INFO OCT-01 EA-11 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

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CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

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TO SECSTATE WASHDC 6641

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

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C O N F I D E N T I A L SECTION 1 OF 2 PARIS 3283

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, FR

SUBJECT: BANK OF FRANCE GOVERNOR WORMSER ON FRANC FLOAT

1. SUMMARY. IN CONVERSATION ON FEB 5, GOVERNOR WORMSER OF BANK OF FRANCE TOLD ECONOMIC AND COMMERCIAL MINISTER AND TREASURY REPRESENTATIVE THAT HE WAS ARCHITECT OF POLICY TO FLOAT FRANC. SPEAKING WITH RELAXED, SEF-SATISFIED AIR, HE EXPRESSED VIEWS ON WIDE RANGE OF TOPICS: (A) WITHDRAWAL OF FRANCE FROM EUROPEAN MONETARY "SNAKE" AND INDEPENDENT FLOAT WERE DESIGNED TO AVOID DISSIPATION OF FRENCH RESERVES THAT FRENCH AUTHORITIES WERE CONVINCED WOULD HAVE RESULTED

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FROM CONTINUED EFFORTS TO KEEP FRANC IN HARNESS WITH DEUTSCHEMARK;

(B) FRANCE HAD NO INTENTION OF USING FLOAT TO CARRY OUT DEVALUATION IN DISGUISE; (C) WHILE FRANCE COULD REJOIN "SNAKE" IN SIX MONTHS' TIME, AS GOVT HAD PLEDGED, ARRANGEMENT WOULD NOT BE VIABLE IF SAME INCOMPATIBILITY EXISTED THEN BETWEEN FRENCH AND GERMAN ECONOMIC POLICIES AS HAD LED TO FRENCH DEPARTURE FROM "SNAKE" LAST MONTH; (D) OFFICIAL TARGET OF RESTORING CURRENT ACCOUNT EQUILIBRIUM BY END OF 1975 WOULD REQUIRE SO SEVERE A DEPRECIATION OF FRANC THAT NO GOVT COULD SUCCESSFULLY IMPOSE SUCH A POLICY, WITH ITS RESULTING INTOLERABLE INFLATION; (E) WORMSER HAD MADE KNOWN TO FRENCH FOREIGN MINISTER JOBERT HIS GRAVE DOUBTS ABOUT FRENCH POLICY OF SEEKING BILATERAL ARRANGEMENTS WITH ARAB OIL-EXPORTING COUNTRIES; (F) MASSIVE INCREASE IN OFFICIAL GOLD PRICE WAS INEVITABLE, BECAUSE U.S. WOULD CERTAINLY COME TO ITS SENSES ONE DAY; AND (G) IN MEANTIME, FRENCH WOULD CONTINUE PRESS FOR AGREEMENT AMONG EUROPEAN CENTRAL BANKS TO MAKE GOLD SETTLEMENTS AT VALUATION CLOSE TO MARKET PRICE. END SUMMARY

2. FLOATING OF FRANC. WORMSER STATED FLATLY THAT HE HAD CONCEIVED POLICY OF FLOATING FRANC AND SOLD IT TO FRENCH GOVT. SOMETIME AGO, HE SAID, HE HAD POINTED OUT TO GERMANS (PRESUMABLY BUNDESBANK) THAT IF THEY UTILIZED THEIR RESERVES TO ARREST DEPRECIATION OF DEUTSCHEMARK AGAINST DOLLAR, THEY WOULD INEVITABLY FIND THEMSELVES RECOUPING OUTLAYS THROUGH EUROPEAN MONETARY "SNAKE" ARRANGEMENTS. SINCE FRANCE'S RESERVES WERE NOWHERE ON SAME SCALE AS GERMANY'S, THERE WAS LIMIT TO THIS PROCESS. IT WAS, MOREOVER, DIFFICULT TO REMAIN IN HARNESS WITH A PARTNER WHOSE TRADE SURPLUS WAS MORE THAN ENOUGH TO COVER INCREASED COST OF ITS OIL IMPORTS IN 1974, WHEREAS FRANCE WOULD SEE ITS TRADE SURPLUS CONVERTED INTO SUBSTANTIAL DEFICIT. WORMSER CONSIDERED IT CERTAIN THAT WHEN FRANCE BEGAN CHALKING UP MONTHLY TRADE DEFICITS EARLY IN 1974, THERE WOULD BE HEAVY RUN ON FRANC, AND THAT FLOAT WAS BEST MEANS TO DEAL WITH THIS PROBLEM AND AVOID DISSIPATION FRENCH RESERVES.

3. WORMSER SAID THAT ONCE HE HAD SUCCEEDED IN GETTING GOVT TO ACCEPT HIS ADVICE, HE SAT BACK TO SEE HOW THEY WOULD HANDLE MATTER. HE FELT THEY HAD DONE SO WITH TOO MUCH FANFARE. HE WOULD HAVE PREFERRED THAT WITH NO PUBLIC ANNOUNCEMENT, BANK OF FRANCE SIMPLY STOP INTERVENING SYSTEMATICALLY TO MAINTAIN 2.25 PERCENT MAXIMUM SPREAD BETWEEN FRANC AND DEUTSCHEMARK, OR ELSE

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LET SPREAD GRADUALLY WIDEN. HOWEVER, FOR HIM ESSENTIAL POINT WAS TO GET FRANC OUT OF "SNAKE," AND MEANS WHEREBY THIS WAS ACCOMPLISHED WERE SECONDARY. (COMMENT: WORMSER'S ALTERNATIVE WAS CLEARLY NOT PRACTICAL, GIVEN FRANCE'S COMMITMENTS TO OTHER PARTIES IN JOINT FLOAT ARRANGEMENTS; AS DEPARTMENT KNOWS, EVEN COURSE ACTUALLY FOLLOWED BY FRENCH GOVT PROVOKED MANY COMPLAINTS FROM OTHER EUROPEANS ABOUT LACK OF CONSULTATION.)

4. WORMSER REMARKED THAT NATIONAL MONETARY AUTHORITIES ALWAYS HAD TO MAKE CHOICE BETWEEN DEFENDING EXCHANGE RATE AND DEFENDING EXCHANGE RESERVES. TWO OBJECTIVES COULD NOT BE ACHIEVED SIMULTANEOUSLY. THIS, HE SAID, WAS WHY UNDERSTANDING REACHED BETWEEN U.S. AND GERMANY ON DOLLAR RATE DURING "BIG FIVE" FINANCE MINISTERS MEETING IN FRANCE IN LATE NOVEMBER DID NOT STAND UP. BUNDESBANK WAS NOT WILLING TO DRAW MASSIVELY ON ITS RESERVES TO SLOW DOWN DEPRECIATION OF DEUTSCHEMARK AGAINST DOLLAR. FACED WITH BUNDESBANKS RELUCTANCE ON THIS SCORE, GERMAN FINANCE MINISTER SCHMIDT FELL BACK ON POLICY OF REMOVING BARRIERS ON IMPORTS OF CAPITAL AS MEANS OF STRENGTHENING MARK.

5. WE REMINDED WORMSER THAT IN A PREVIOUS CONVERSATION HE HAD SAID TO US THAT HE REGARDED DEVALUATION AS A SIGN OF FAILURE OF A GOVTS POLICIES. WE ASKED HIM IF HE HAD THIS FEELLING ABOUT THE DECISION TO FLOAT. HIS REJOINER WAS THAT FRANC COULD FLOAT UP AS WELL AS DOWN, AND THAT FRENCH AUTHORITIES HAD NO INTENTION OF USING FLOAT TO CARRY OUT DEVALUATION IN DISGUISE. HE MADE MUCH OF FACT THAT AFTER SOME INITIAL WEAKNESS, FRANC HAD NOW RECOVERED ROUGHLY TO PRE-FLOAT LEVELS AGAINST DOLLAR AND WAS ONLY SLIGHTLY LOWER AGAINST DEUTSCHEMARK.

6. DURATION OF FLOAT. ASKED ABOUT LIKELIHOOD THAT FRANCE WOULD BE ABLE TO RETURN TO "SNAKE" IN SIX MONTHS TIME, AS GOVT HAD PLEDGED, WORMSER INDICATED STRONG DOUBTS RE FEASIBILITY OF THIS OBJECTIVE. LATER IN CONVERSATION, HE SAID HE WOULD LIKE TO CLARIFY HIS THINKING ON THE POINT. INSOFAR AS FRANCE AND GERMANY WERE CONCERNED, "SNAKE" RELATIONSHIP HAD LASTED JUST ABOUT ONE YEAR AND NINE MONTHS. IT HAD BEEN POSSIBLE TO MAINTAIN IT FOR THIS LENGTH OF TIME THANKS ONLY TO TWO REVALUATIONS OF DEUTSCHEMARK AND WILLINGNESS OF FRANCE TO SUSTAIN MASSIVE RESERVE LOSSES--IN ALL, ABOUT 2.3 BILLION UNITS OF ACCOUNT. IN THE END, LINK HAD HAD TO BE BROKEN BECAUSE OF INCOMPATIBILITY BETWEEN FRENCH AND GERMAN ECONOMIC POLICIES. CONFIDENTIAL

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FRANCE PLACED TOP PRIORITY ON GROWTH AND FULL EMPLOYMENT, WITH GERMANY PUTTING HEAVIER EMPHASIS ON FIGHT AGAINST INFLATION. THUS, WORMSER CONCLUDED, FRANCE COULD REJOIN "SNAKE" IN SIX MONTHS TIME, BUT SAME CIRCUMSTANCES AS THOSE PREVAILING BEFORE DECISION TO FLOAT WOULD INVITABLY LEAD TO SAME CONSEQUENCES.

7. PAYMENTS EQUILIBRIUM TARGET. EARLY IN CONVERSATION, WORMSER EXPRESSED THOUGHT THAT FRANCE WAS FACED WITH SEVERAL YEARS OF LARGE TRADE AND CURRENT ACCOUNT DEFICITS. LATER, WE SPECIFICALLY ASKED HIS VIEWS ON ANNOUNCED GOVT TARGET OF RESTORING EQUILIBRIUM IN CURRENT ACCOUNT BY END OF 1975. HE REPLIED THAT THIS WAS, OF COURSE, THEORETICALLY POSSIBLE. TO DO SO, FRENCH AUTHORITIES WOULD HAVE TO REFRAIN FROM ANY EXTERNAL BORROWINGS TO FINANCE DEFICIT AND ALLOW FRANC TO DEPRECIATE BY WHATEVER DEGREE WAS NECESSARY TO BRING DEMAND FOR, AND SUPPLY OF, FOREIGN EXCHANGE

INTO BALANCE. HOWEVER, DEPRECIATION REQUIRED WOULD HAVE TO BE
VERY SEVERE. IT WOULD GENERATE INTOLERABLE INFLATION, AND NO
GOVT COULD SUCCESSFULLY IMPOSE SUCH A POLICY, EVEN IF IT WERE OF
A MIND TO DO SO.

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8. OIL CRISIS. WORMSER SAID ANYONE LOOKING AT INTERNATIONAL
MONETARY DISORDERS OF RECENT YEARS COULD HAVE EASILY PREDICTED
THAT BEFORE TOO MUCH LONGER OIL EXPORTERS WOOULD LOSE PATIENCE AND
DEMAND SHARP INCREASE IN PRICE OF CRUDE. AT PREVIOUS LOW PRICES,
THEIR EXPORT EARNINGS HAD NOT KEPT PACE WITH WORLD INFLATION, AND
THEY HAD SUFFERED GREAT LOSSES ON EXCHANGE VALUE OF THEIR HOLDINGS
IN STERLING AND DOLLARS. THUS, MONETARY CRISIS HAD GENERATED OIL
PRICE DIFFICULTIES, AND THEREFORE, IN TURN, WERE NOW CAUSE OF NEW
MONETARY DISORDERS. WORMSER, WHO HAD RESPONSIBILITY FOR OIL

NEGOTIATIONS WITH ALGERIANS WHEN HE WAS DIRECTOR OF ECONOMIC AFFAIRS IN FOREIGN OFFICE IN EARLY 1960'S, SAID HE HAD GRAVE DOUBTS ABOUT FRENCH POLICY OF SEEKING BILATERAL ARRANGEMENTS WITH ARAB OIL-EXPORTING COUNTRIES. HE ADDED THAT HE HAD MADE THESE VIEWS CONFIDENTIAL

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KNOWN "AT APPROPRIATE POINT" WITHIN FRENCH GOVT (PRESUMABLY FOREIGN MINISTER JOBERT).

9. GOLD. WORMSER SAID HE WAS SERENE IN CONVICTION THAT THERE WOULD BE MASSIVE INCREASE IN OFFICIAL GOLD PRICE. THIS HAD TO BE SO, BECAUSE U.S. WOULD CERTAINLY COME TO ITS SENSES ONE DAY. COLLAPSE OF MONETARY REFORM NEGOTIATIONS--THERE WAS NO OTHER WORD FOR IT--SHOWED THAT NO COUNTRY WAS PREPARED TO APPLY THE SYSTEM EXPERTS HAD BEEN SO BUSILY CONSTRUCTION, WITH SUCH ABSTRUSE CONCEPTS AS AN ABSTRACT NUMERAIRE AND BASKET VALUATION. WORMSER ALSO FORESAW CONTINUED FRENCH PRESSURE FOR AGREEMENT AMONG EUROPEAN CENTRAL BANKS TO MAKE GOLD SETTLEMENTS AT VALUATION CLOSE TO MARKET PRICE. HE SAID THAT IF IT HAD BEEN FOR HIM TO DECIDE, HE WOULD HAVE ALREADY ENTERED INTO SUCH A TRANSACTION, PROVIDED HE WAS ABLE TO FIND ANOTHER LIKE-MINDED CENTRAL BANK.

10. COMMENT: WE HAVE NEVER BEFORE SEEN GOVERNER WORMSER IS SO RELAXED, SELF-SATISFIED MOOD, INDEED, HIS BEHAVIOR THROUGHOUT CONVERSATION SEEMED TO US TO LEND A GREAT DEAL OF CREDENCE TO CLAIM HE MADE OF BEING ARCHITECT OF POLICY TO FLOAT FRANC. IRWIN

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